

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

CAESAR RODNEY SCHOOL
DISTRICT

TUITION TAX
PERFORMANCE AUDIT

FISCAL YEAR 2007

FIELDWORK END DATE: APRIL 11, 2008

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EXECUTIVE SUMMARY

BACKGROUND

Title 14, Delaware Code, *Education*, Chapter 6, *Tuition Charges*, authorizes local school districts to levy a tax on district residents to pay for tuition eligible programs administered by the districts and private institutions. This tax is not subject to voter referendum. Delaware Department of Education (DOE) approves the educational programs that are tuition eligible and the tuition tax bills between the districts and provides regulations on allowable expenditures and the types of special needs that are funded by tuition eligible programs. The school district may educate the special needs child within the district or, if the child's needs require, may send the child to another local school district or private placement.

Caesar Rodney School District Tuition Program

DOE has formally approved seven tuition eligible programs for Fiscal Year 2007 at Caesar Rodney School District (the District). The District funds six of tuition eligible programs with tuition funds. The Preschool Intensive Learning Center (ILC) and Level Four ILCs are funded with local funds.

Caesar Rodney School District participated in the DOE Special Education Funding Pilot Program for its first year during Fiscal Year 2007. The intent of the Pilot Program is to make individual decisions based on student need rather than disability category. This increases the opportunity to consider the regular classroom an option for providing special education services when appropriate. In moving toward the needs-based funding system, most students are no longer enrolled in a specific school identified as an Intensive Learning Center. Students are enrolled in their home schools and provided with an intensive or complex level of special education services under the Special Education Funding Pilot Program. As a result, additional resources (e.g., special education teacher, paraprofessionals, etc.) are provided in the regular education classrooms. This blending of regular and special education students in the classroom has made it more difficult to specifically identify authorized positions and their funding sources to tuition eligible programs. The August 29, 2006, Pilot Program memo, under the requirements for Intense and Complex Special Education Units, states "Each district would have the ability to generate tuition to cover the local cost of the educational program for these students and any excess costs involved in the provision of FAPE (Free Appropriate Public Education) to these students." Per the DOE memo, students in the Intense and Complex grouping are tuition tax eligible.

The District spent approximately \$5,700,000 on its tuition programs during the fiscal year ended June 30, 2007.

AUDIT CONCLUSIONS AND OBSERVATIONS

Based on the results of the audit procedures performed, the Office of Auditor of Accounts (AOA) noted instances where the District charged expenditures to the tuition tax program that were not allowable. The District's tuition tax budget was developed based on allowable educational related expenses and the tuition tax rate is reasonable. In addition, the District correctly completed its tuition tax bills.

EXECUTIVE SUMMARY

The following findings related to the tuition tax program were identified:

- In April 2006, the District improperly used tuition tax funds totaling \$1,550,000 to fund current operating expenses, which should have been funded using the District's local funds. The District subsequently reimbursed the tuition tax appropriation for \$1,000,000 during FY06. The remaining \$550,000 was reimbursed to the tuition funds in FY07 (October 2006).
- In June 2006, the District improperly used tuition tax funds to pay for \$754,651.44 of indirect costs assessed to the Charlton School construction project. In June 2007, the District reimbursed the tuition tax appropriation for \$270,378.65 of the indirect costs. As of June 30, 2007, the remaining balance due to the tuition tax appropriation is \$484,272.79.

TABLE OF CONTENTS

| | |
|------------------------------------|---|
| Audit Authority | 1 |
| Background | 2 |
| Objectives, Scope, and Methodology | 4 |
| Conclusions | 5 |
| Findings and Recommendations | 6 |
| Distribution of Report | 8 |

AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to perform post audits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: the American Institute of Certified Public Accountants, which has issued generally accepted auditing standards, and the U.S. General Accountability Office, which has issued generally accepted government auditing standards.

BACKGROUND

Title 14, Delaware Code, *Education*, Chapter 6, *Tuition Charges*, authorizes local school districts to levy a tax on district residents to pay for tuition eligible programs administered by the districts and private institutions. This tax is not subject to voter referendum. Delaware Department of Education (DOE) approves the educational programs that are tuition eligible and the tuition tax bills between the districts and provides regulations on allowable expenditures and the types of special needs that are funded by tuition eligible programs. The school district may educate the special needs child within the district or, if the child's needs require, may send the child to another local school district or private placement.

Students from the District, other Delaware districts, and other states may attend the tuition eligible schools or programs, provided the students qualify for the service. In determining the tuition to be charged, the District is required by Title 14, Delaware Code, *Education*, Chapter 6, *Tuition Charges* to compute the tuition by adding its share of educational related expenses as allowed by DOE regulations. The sum of the allowable expenses is divided by the total number of pupils in the authorized program and grades and attending all public schools in the receiving district as of September 30 of the current school year to calculate a tuition rate per pupil. The cost for the current year may be estimated cost and shall include an amount, added or subtracted from the estimate, which will represent the difference between the estimated and the actual costs of the tuition charges for the same purpose in the previous year. The District estimates tuition program expenditures based on a tuition tax program budget that it prepares on an annual basis. The budget takes into consideration prior year expenditures, expected increases/decreases in revenues and expenditures, private placement costs, and funds available from the prior year. For each pupil attending a public school of another district as of September 30, the receiving district shall bill the sending district, and the sending district shall pay the tuition charges per pupil on or before January 1 of the fiscal year in which the bill is submitted to the sending district for payment. In the case of pupils attending the public schools of the receiving district for less than a full term, the tuition charge shall be prorated by reference to the period of time during which such pupils actually attended the receiving district's schools, provided that attendance for part of any month shall be counted as a full month of attendance. The District is required to bill each sending district its share of the tuition rate per pupil. DOE has developed a standard tuition billing form for use by the districts. The tuition billing forms are to be approved by the Secretary of Education prior to billing.

The DOE has defined direct and indirect costs on its *Department of Education Tuition Billing Form*. Direct costs are defined as local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis. The only direct costs that may be assigned on a pro-rated basis are instructional personnel who spend a portion of their time providing instructional services to the special program. For those employees that charge their time to this special program, the District is responsible for maintaining appropriate documentation supporting the time charged.

BACKGROUND

Caesar Rodney School District Tuition Program

DOE has formally approved the following seven tuition eligible programs for Fiscal Year 2007 at the Caesar Rodney School District:

- Charlton Program
- Intensive Learning Center (ILC) K-8
- Secondary ILC
- Deaf-Blind
- Visually Impaired
- Student Discipline Program- Part 1 Alternative School
- Preschool ILC

Schools throughout the District may be operating one, all, or none of the tuition programs.

Caesar Rodney School District participated in the DOE Special Education Funding Pilot Program for its first year during Fiscal Year 2007. The intent of the Pilot Program is to make individual decisions based on student need rather than disability category. This increases the opportunity to consider the regular classroom an option for providing special education services when appropriate. In moving toward the needs-based funding system, most students are no longer enrolled in a specific school identified as an Intensive Learning Center. Students are enrolled in their home schools and provided with an intensive or complex level of special education services under the Special Education Funding Pilot Program. As a result, additional resources (e.g., special education teacher, paraprofessionals, etc.) are provided in the regular education classrooms. This blending of regular and special education students in the classroom has made it more difficult to specifically identify authorized positions and their funding sources to tuition eligible programs. The August 29, 2006, Pilot Program memo, under the requirements for Intense and Complex Special Education Units, states “Each district would have the ability to generate tuition to cover the local cost of the educational program for these students and any excess costs involved in the provision of FAPE (Free Appropriate Public Education) to these students.” Per the DOE memo, students in the Intense and Complex grouping are tuition tax eligible.

The District spent approximately \$5,700,000 on their tuition program during the fiscal year ending June 30, 2007.

OBJECTIVES, SCOPE & METHODOLOGY

OBJECTIVES

1. Determine if the expenditures charged to the tuition tax program are allowable and for DOE approved tuition programs and that the District's tuition tax budget was developed based on allowable educational related expenses.
2. Determine if the tuition tax rate is reasonable compared to tuition tax bills received from other districts and/or allowable expenditures for tuition tax programs.
3. Determine if the District correctly completed tuition tax bills.

SCOPE

The performance audit covers the period of July 1, 2006 through June 30, 2007 (FY07 Bills) and includes a review of 10 percent of the invoices, personnel, journal entries, and transfers charged to tuition programs. In addition, the audit includes a review of FY07 tuition tax billing forms and a review of the FY08 tuition tax budget that supports the FY08 tuition tax rate.

METHODOLOGY

The audit was performed in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States.

Audit procedures consisted of the following:

- Reviewed laws and regulations pertaining to tuition tax programs and the processing of transactions.
- Interviewed appropriate officials at the District and DOE.
- Obtained PHRST and DFMS payroll and transaction data.
- Inspected supporting documentation such as vendor invoices, teacher schedules, and rosters.
- Determined if payroll expenditures, vendor invoices, journal entries, and transfers were allowable and in compliance with applicable laws and regulations.
- Reviewed the District's tuition tax budget process.
- Estimated FY08 tuition program expenditures, billings, and tuition tax rate and compared results to the District's tuition tax budget, expected billings, and FY08 tuition tax rate. (The District's budget process for FY08 occurs during FY07).

The criteria used in this performance audit consisted of the following:

- Title 14, Delaware Code, *Education*.
- Fiscal Year 2007 Budget Epilogue language.
- State of Delaware *Budget and Accounting Manual*.
- Department of Education Regulations (Tuition Billing Form Instructions).

CONCLUSIONS

1. *Determine if the expenditures charged to the tuition tax program are allowable and for DOE approved tuition programs and that the District's tuition tax budget was developed based on allowable educational related expenses.*

Based on the results of the audit procedures performed, AOA noted instances where the District charged expenditures to the tuition tax program that were not allowable. The District's tuition tax budget was developed based on allowable educational related expenses.

Findings related to the objective above were identified at the District level.

2. *Determine if the tuition tax rate is reasonable compared to tuition tax bills received from other districts and/or allowable expenditures for tuition tax programs.*

Based on the results of the audit procedures performed, it was determined that the tuition tax rate was reasonable compared to tuition tax bills received from other districts and allowable expenditures for tuition tax programs.

3. *Determine if the District correctly completed tuition tax bills.*

Based on the results of the audit procedures performed, the District correctly completed its tuition tax bills.

FINDINGS AND RECOMMENDATIONS

Objective 1

Finding #1 – Tuition Tax Expenditures

AOA reviewed 10 percent of the invoices, journal entries, transfers, and personnel charged to the tuition eligible programs at the District. During this review, AOA noted two cash adjustments (CA) that were for repayments of unallowable expenditures expended during Fiscal Year 2006 as follows:

- In April 2006, the District improperly used tuition tax funds totaling \$1,550,000 to fund current operating expenses, which should have been funded using the District's local funds. The District subsequently reimbursed the tuition tax appropriation for \$1,000,000 during FY06. The remaining \$550,000 was reimbursed to the tuition funds in FY07 (October 2006).
- In June 2006, the District improperly used tuition tax funds to pay for \$754,651.44 of indirect costs assessed to the Charlton School construction project. In June 2007, the District reimbursed the tuition tax appropriation for \$270,378.65 of the indirect costs. As of June 30, 2007, the remaining balance due to the tuition tax appropriation is \$484,272.79.

The District charged expenditures to the tuition tax program that were not allowable and not adequately supported.

Title 14, Delaware, *Education*, Chapter 6, *Tuition Charges*, Section 602(b), states, "in determining the tuition to be charged, the receiving district shall compute the tuition by adding such receiving district's share of educational expenses as allowed by Department of Education regulations." The DOE regulations detailed on the *Instructions for Department of Education Tuition Billing Form* states, "direct costs are limited to those local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis. The only direct costs that may be assigned on a pro-rated basis are instructional personnel who spend a portion of their time providing instructional services to the special program. For those employees that charge their time to this special program, the district is responsible for maintaining appropriate documentation supporting the time charged."

Recommendation

The District reimburse the tuition tax appropriation for the \$484,272.79 in expenditures that were determined to be unallowable charges. In addition, the District should put policies and procedures in place to ensure that the tuition program is being appropriately charged for allowable costs under the DOE approved tuition programs and that these charges are adequately supported.

Auditee Response

The indirect costs of \$754,651.44 assessed to the Charlton School construction project was applied in FY 2006 by the prior district administration. The intention was to provide fair distribution of the burden of overseeing the construction of a statewide tuition eligible school. The Caesar Rodney School District provided technical and managerial oversight prior to and during the construction process and; therefore,

FINDINGS AND RECOMMENDATIONS

bore a disproportionate burden, especially since Caesar Rodney pays tuition to the Charlton School and donated land to the project.

In FY 2007, the current Finance Director performed an internal audit and had questions regarding the application of the indirect costs to the construction project. For clarification of the appropriateness of the charges, she contacted the Department of Education. The Department of Education agreed that some fair distribution of the costs incurred by the district was appropriate. However, there was a concern that the application of the indirect costs charged for the Charlton construction oversight would ultimately be charged against tuition. The Department of Education stated that the furniture purchased with construction funds was a tuition eligible expense and could be charged to Charlton tuition through an EX document. The total cost of the furniture was \$484,272.79. However, since the furniture purchases had occurred during the previous fiscal year, it was not possible to process an EX. The district made the determination to offset the recovery of the previously assessed indirect costs by documenting the furniture purchases of \$484,272.79 and reimbursing the Charlton tuition program \$270,378.65. The district has met with the Department of Education and will produce documentation to support the personnel costs assessed for overseeing the construction project. In the event the documentation supports an amount less than \$484,272.79, the district will reimburse the tuition tax the difference.

The District has put policies and procedures in place to ensure that the tuition program is being appropriately charged for allowable costs under the Department of Education approved tuition programs. These charges are adequately supported.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Richard S. Cordrey, Secretary, Department of Finance
The Honorable Jennifer W. Davis, Director, Office of Management and Budget
The Honorable Valerie Woodruff, Secretary, Department of Education
Ms. Trisha Neely, Director, Division of Accounting, Department of Finance

Legislative

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph R. Biden, Attorney General, Office of the Attorney General

Other

Ms. Dorcell Spence, Associate Secretary, Finance and Administrative Services, Department of Education
Mr. John Marinucci, Director, Financial Management, Department of Education
Mr. David Henderson, President, Board of Education, Caesar Rodney School District Board of Education
Dr. Kevin R. Fitzgerald, Superintendent, Caesar Rodney School District